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NEIGHBORHOOD ECONOMIC DEVELOPMENT ADVOCACY PROJECT

April 8, 1999

Donald V. Hammond
Fiscal Assistant Secretary
Office of the Fiscal Assistant Secretary
US Department of the Treasury, Room 2112
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Hammond:

The Neighborhood Economic Development Advocacy Project (NEDAP) is a resource center for community groups working for economic justice in New York City's low income neighborhoods and communities of color. NEDAP submitted to the U.S. Treasury Department comments, with the New York Reinvestment Task Force, on proposed Electronic Fund Transfer regulations (EFT 99) and proposed features of Electronic Transfer Accounts (ETAs). NEDAP is concerned that federal benefit recipients in communities underserved by mainstream banking institutions have meaningful and affordable access to their funds. We commend Treasury for recognizing serious concerns related to arrangements between financial institutions and payment service providers for delivery of federal benefits. We urge Treasury to propose rules prohibiting arrangements between financial institutions and payment services providers. Without such rules, the EFT 99 program will fall significantly short of Treasury's stated goal of increasing participation of federal benefit recipients in the banking mainstream.

NEDAP stated its opposition to Treasury's proposed ETA features in previous comments and continues to urge Treasury to revise its ETA proposal dramatically if it is at all genuine about reaching the so-called unbanked through EFT. The Advance Notice of Proposed Rule Making (ANPRM), in fact, underscores the need for a workable Electronic Transfer Account (ETA). Arrangements between financial institutions and payment service providers, as outlined in the ANPRM, would not bring benefit recipients into the banking mainstream, but would subject them to expensive and predatory practices of fringe banking outlets that exist throughout New York's low-income, underserved communities.

Arrangements in which payment service providers act as conduits for financial institutions are expensive, inefficient, and lead to abusive practices. Recipients should not be forced to pay additional fees for access to their benefits. It is not only unfair to shift costs onto recipients but also reprehensible to permit payment service providers to profit from, and at the expense of, recipients.

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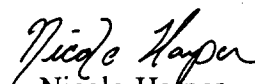
Arrangements between banks and payment service providers add unnecessary expense and are contrary to the goals of Treasury and the Debt Collection Improvement Act of 1996. This is clear from the arrangements described in the ANPRM. Payment service providers have seized upon a half-second in the transaction to insert themselves and increase their profits at the recipient's expense. There is no justification for this additional step. The National Community Reinvestment Coalition (NCRC) summarized additional financial costs of these arrangements in its comment letter to Treasury. Especially egregious is NCRC's finding that the cost of using existing payment service providers to access federal benefits is three times greater than the \$3 fee for the ETA.

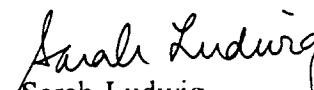
The EFT 99 regulations specifically limit direct deposit to federally insured depository institutions, to ensure legal and other protections for EFT recipients. Allowing financial institutions to arrange payment through check cashing and other fringe banking outlets directly undermines the strong rationale for the limitation. In each arrangement a second, unnecessary step has been inserted between the government transfer of the funds and the recipient's access.

Recipients may also be held to additional, abusive fees charged by the check casher. NEDAP agrees with the National Consumer Law Center (NCLC) that Treasury implicitly acknowledges the legal justifications for regulating access to public benefits through payment service providers. Unlike more mainstream financial institutions, payment service providers have no legal commitment to the communities they serve. Banks are required to provide services to low-income communities under the Community Reinvestment Act and credit unions are obligated by their charters to serve their communities. Payment service providers, by contrast, take no interest in the community beyond the activities that take place within their own walls and cash registers. As a result, they extract money from communities without contributing any reciprocal benefit. The abusive transaction terms that payment service providers have imposed on their customers are well-documented in the NCLC's comment letter.

Thank you for the opportunity to comment on the ANPRM. We look forward to commenting on the proposed rule, which we hope will reflect our comments as well as those submitted to Treasury by NCRC and NCLC.

Sincerely,


Nicole Harper
Law Intern


Sarah Ludwig
Executive Director

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